Annual Report

# MMA

# 2003

Providing
Communication
Solutions
for the
Future.

Mail Management Agency
Special Operating Agency
Of Transportation &
Government Services

104-00135/

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# MINISTER'S LETTER

MINISTER OF TRANSPORTATION
AND GOVERNMENT SERVICES

Room 203
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

July 14, 2003

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

I have the privilege of presenting the Seventh Annual Report of Mail Management Agency for the year ended March 31, 2003.

For the past 47 years, Mail Management Agency and its predecessor, Postal Services Branch, have been providing correspondence distribution and finishing services primarily within the provincial infrastructure, and in recent years as a Special Operating Agency to the broader public sector.

Mail Management continues to seek out innovative solutions within its mandate to ensure that services exceed or meet the forefront of its industry. As an Agency, it continues to strive to meet and exceed the expectations of its stakeholders.

Respectfully submitted,

Scott Smith
Minister Responsible for
Mail Management Agency

# DEPUTY MINISTER'S LETTER


**Manitoba**

**Deputy Minister of**
**Government Services**
**& Emergency Measures**

**332 Legislative Building**
**Winnipeg MB R3C 0V8**

**Telephone: (204) 945-4414**
**Facsimile: (204) 945-1857**


July 14, 2003

Honourable Scott Smith
Minister Responsible for
Mail Management Agency
Transportation and Government Services
Room 203 Legislative Building
Winnipeg MB R3C 0V8

Dear Mr. Minister:

Please accept for your consideration the Seventh Annual Report of Mail Management Agency for the year ended March 31, 2003.

Mail Management endeavours to ensure that customer service, productivity improvement, and employee development are at the forefront of its initiatives. Building on this foundation enables the Agency to continue to meet and exceed client expectations.

The Agency continues to face a future of significant technological change in the world communication environment. It has accepted the challenge and is moving forward with initiatives to provide the government and broader public sector with opportunities that will keep pace with this technology.

I am pleased with the operating achievements of Mail Management Agency and is encouraged by the commitment of its employees.

Respectfully submitted,

Gerry Berezuk
Deputy Minister and Chairperson of the
Mail Management Advisory Board

# CHIEF OPERATING OFFICER'S LETTER

MAIL MANAGEMENT AGENCY

200 Vaughan Street
Winnipeg MB R3C 1T5
Phone:945-2820, Fax:945-5753

**From the Chief Operating Officer**



The Agency improved its financial position in 2002/03, compared to the previous year, despite the volumes in the Mail Finishing and Interdepartment Mail lines of business decreasing by 10%. Overall, revenues increased allowing the Agency to almost reach a breakeven position. Additionally, the Agency met most of its goals and managed to surpass projections for the Printing and Contract Management lines of business.

During the year we revisited the electronic distribution component of our *electronic* Mail Management (*e*MM) project. The findings were consistent with the previous year in that it is currently not viable for the Agency to pursue the endeavour. The printing component of the *e*MM project did however continue to grow with a 128% volume increase over the prior year.

As the Agency's clients take advantage of advances in technology and governments continuing goal to reduce expenditures Agency volumes are impacted resulting in decreases in the Mail Finishing and the Interdepartment Mail lines of business.

The Agency recognized that customer needs were changing and positioned itself to promote services that assisted clients in obtaining their goals. In the past year, the Agency worked closely with a large client and successfully integrated print services with the client's new application. This interdependency builds a stronger bond between the client and the Agency, fostering opportunities that have not existed in the past.

As always, staff at the Agency has been called upon to adapt to a changing environment and as in the past they have come forth and met the challenge.

I would like to extend my sincere appreciation to those that have contributed to and supported Mail Management Agency, including our staff, and our clients.

Greg Bowers
A/Chief Operating Officer

# ADVISORY BOARD

The Advisory Board's role in support of the Agency is to offer advice and direction on short-term strategic planning, management, and reporting as well as on issues of concern to our clients. The Board meets quarterly to review the Agency's financial reports, and annually to review the business plan, annual report, and any planned changes to the Agency Charter.

Members of Mail Management's Advisory Board as of March 31, 2003, are listed below

**CHAIR**
***Gerry Berezuk***
Deputy Minister
Government Services
and Emergency Measures

## MEMBERS

**PRIVATE SECTOR REPRESENTATIVE**
Raymond West
Retired Chairman of the Board
A.E. Mackenzie Co. Ltd.

**PRIVATE SECTOR REPRESENTATIVE**
Norme Fiske
Retired Partner
Sill & Company

**CLIENT REPRESENTATIVE**
Al Macatavish
Retired Vice President,
Manitoba Hydro

**CLIENT REPRESENTATIVE**
John Hosang
Assistant Deputy Minister
Manitoba Transportation &
Government Services

**STAFF REPRESENTATIVE**
Dan Hawley
Lead Hand - Finishing
Mail Management Agency

**EX-OFFICIO**
Greg Bowers
A/Chief Operating Officer
Mail Management Agency

**EX-OFFICIO**
Tracey Danowski
A/Assistant Deputy Minister
Government Services

## AGENCY MANAGEMENT

**GREG BOWERS**
A/Chief Operating Officer

**MIKE LANGENFELD**
A/MarketingSystems

**LAURENDA MADILL**
A/Operations Manager

**LYNDONNA SCHILLING**
Accounting

# AGENCY PROFILE

## Historical Perspective

Mail Management Agency became a Special Operating Agency on April 1, 1996. Its history lies in that of the Postal Services Branch, its predecessor. The Postal Services Branch was responsible for centralized postal management within the Manitoba Government. It included co-ordinating the pickup and delivery of correspondence, distribution of interdepartmental mail, affixing the most economical postage for correspondence to the general public and allocating these costs to the originating program, evaluating Postal requirements, managing the franking privileges of members of the Legislative Assembly and negotiating and entering into contracts to reduce postage and equipment costs to Government.



Postal Service began as a Branch in 1956 and throughout the years grew from one facility to as many as twelve. During its growth it developed a mail delivery system, using government owned vehicles, that provided a high degree of reliability. As technology and alternate sources of delivery improved, use of government owned vehicles were phased out and the number of postal satellites was reduced.

In the late 1980's to early 1990's, Postal Services became more accountable and service oriented. A computerized mail management system was purchased to recover postage costs from users. Postal Services subsequently assumed responsibility for the Department of Highways' postal operation and the Queen's Printer mail preparation services that included inserting and folding.

During the 1996/97 year, Mail Management Agency began to position itself as the most cost effective and efficient alternative. The Agency realigned its main facility, organization structure, systems, and its method of operation to assist it in its thrust of meeting or exceeding the expectations of its existing and future clients.

The 1997/98 year introduced a marketing position to the organization. As a result, the Agency developed an improved profile amongst its customers. Client presentations were performed and response time to customer inquiries was greatly improved.

## Mission

The mission of Mail Management Agency is to enable clients to expedite their products, information and correspondence through the most appropriate distribution alternative.

***The following business principles and values support the mission of the Agency:***

- *to create service solutions for Government that contribute to affordable program delivery and ultimately to its bottom line;*
- *to develop, through provision of superior service at reasonable cost, lasting, mutually satisfactory business relationships;*
- *to develop mutually agreeable business relationships with suppliers by ensuring all are extended access to tender documents, by paying open accounts promptly, and generally demonstrating good business ethics;*
- *to remain a good corporate citizen by complying with all the laws and regulations and by promoting measures to eliminate or minimize risks to the environment;*
- *to provide a safe working environment for all employees in compliance with ongoing Workplace Health and Safety regulations;*
- *to encourage and acknowledge special levels of employee accomplishments through recognition and rewards;*
- *to continue to train and develop employee skills and talents through career planning and educational support;*
- *to provide employees with clear objectives and direction on how they may be attained;*
- *to stress team building while recognizing individual effort within team frameworks;*
- *to encourage innovative ideas and promote creative thought;*
- *to jointly establish individual performance goals and conduct impartial appraisals on their degree of attainment; and*
- *to remain an employer of choice.*

## Goals and Objectives

The long-term goal of Mail Management Agency is to become the selected distributor of products, information and correspondence. In support of this goal, management and staff of the Agency have defined the following objectives that are critical to the long-term success of the Agency:

- *to ensure that the cost of postage for Mail Processing, Mail Finishing, and Interdepartment Mail are minimized and that mail is expeditiously processed in a timely manner;*
- *to consolidate all Manitoba Government existing and dispersed departmental mail operations into one corporate process which will eliminate duplication of services, staff, equipment and space usage;*
- *to develop clients outside the Provincial Government, e.g. Interdepartment Mail for the City of Winnipeg, Federal Government offices in Manitoba, and Universities in the city of Winnipeg;*
- *to provide guidelines to government in the processing of all related mail products and services and to establish standards and procedures for the efficient handling of government mail; and*
- *to develop other correspondence handling service solutions which are beneficial and cost effective for the corporate entity.*

## Products and Services

MMA services are expanding to encompass the broader demands associated with communications. The existing Finishing, Processing, Interdepartment Mail, and Contract Administration components were augmented with *electronic* Mail Management (*e*MM) printing, beginning the process of transforming MMA into a one-stop shop for communication services. Providing these additional services at one location will enable MMA to more fully address their clients' current and future needs.

### PROCESSING – Line of Service:

| | |
|---|---|
| **METERED** | Standard and oversized Letter mail processed with ink stamp impressions (metered dollar impressions) through high speed mail machines. |
| **PERMIT** | Standard and oversize Lettermail that are pre-printed with indicia (Canada Post deposit account numbers), and are prepared for Canada Post with the use of a numerically controlled Statement of Mailing (SOM) document. SOM's are used for items such as Addressed Admail, Unaddressed Admail, Publication Mail, and Lettermail. |
| **XPRESSPOST CERTIFIED MAIL** | Numerically controlled envelopes that are processed with an acknowledgement of receipt card that is returned to the sender upon successful completion of delivery. |
| **REGISTERED MAIL** | Traceable, barcoded mail that is scanned upon entry into the mailstream, signed for and scanned at the point of delivery. Delivery information and a scanned signature are available from the Canada Post website. |
| **OTHER** | All other mail processing services not included in the above, including courier, parcels, business reply mail, postage cheques, and proof of delivery signatures. |

### FINISHING – Line of Service:

| | |
|---|---|
| **ADDRESSING** | High speed machine addressing of envelopes and labels. Used in conjunction with incentive mail software programs that allow the Agency to sort addresses directly to Canada Post forward sortation areas or actual letter carrier walks. In doing so, MMA garners significant postage savings for its customers. |
| **BURSTING** | High-speed machine separation of various types of continuous sheet forms. |
| **FOLDING** | High-speed machine folding of various types of cheques, paper documents, and government forms. |
| **INSERTING** | High speed inserting of paper document various types of cheques, paper documents, and government forms. |
| **MANUAL INSERTING** | Grouping items of unusual type and design into containers specific to each unique project. Activities of this nature range from inserting specific matching items into envelopes or assembling convention kits that include computer diskettes, pens, pins, etc. Each of these tasks is performed manually. |

## Products and Services

### INTERDEPARTMENT MAIL – Line of Service:

Daily pick up and delivery of items between government departments at designated locations.

***The classification of service is as follows:***

**SMALL ENVELOPE** Reusable interdepartment envelopes, the approximate size of a standard # 10 letter mail envelope.

**FLAT** Large reusable interdepartment envelopes approximately 15" x 11".

**SMALL PARCEL** Containers that can be up to 11 lbs. in weight and a maximum size of 11" x 8.5" x 4.5".

**LARGE PARCEL** Items larger than the above categories that weigh at most 60 lbs. and can be carried by the Agency's contract couriers.

### CONTRACT ADMINISTRATION – Line of Service:

The tendering for, and management of, the best possible courier and parcel rates for use within MMA Processing and Interdepartment services, and by the broader public sector clients who ship directly from their own facilities.

### eMM PRINTING – Line of Service:

MMA's print services enable its clients to bundle their communications needs and have them provided more efficiently from a single central source. The print service provide clients with "just-in-time" printing of electronic documents on high speed digital black and white printers that can be immediately transferred to the Finishing, Processing, and Interdepartment mail sections.

**VARIABLE DATA** Merging of clients address list to a letter or form, and printing the document at high speed. When appropriate, adding barcodes to allow intelligent inserting to assist in achieving incentive postal rate savings.

**QUICK COPY** Printing multiple copies of a generic document on high speed printers.

# AGENCY PROFILE

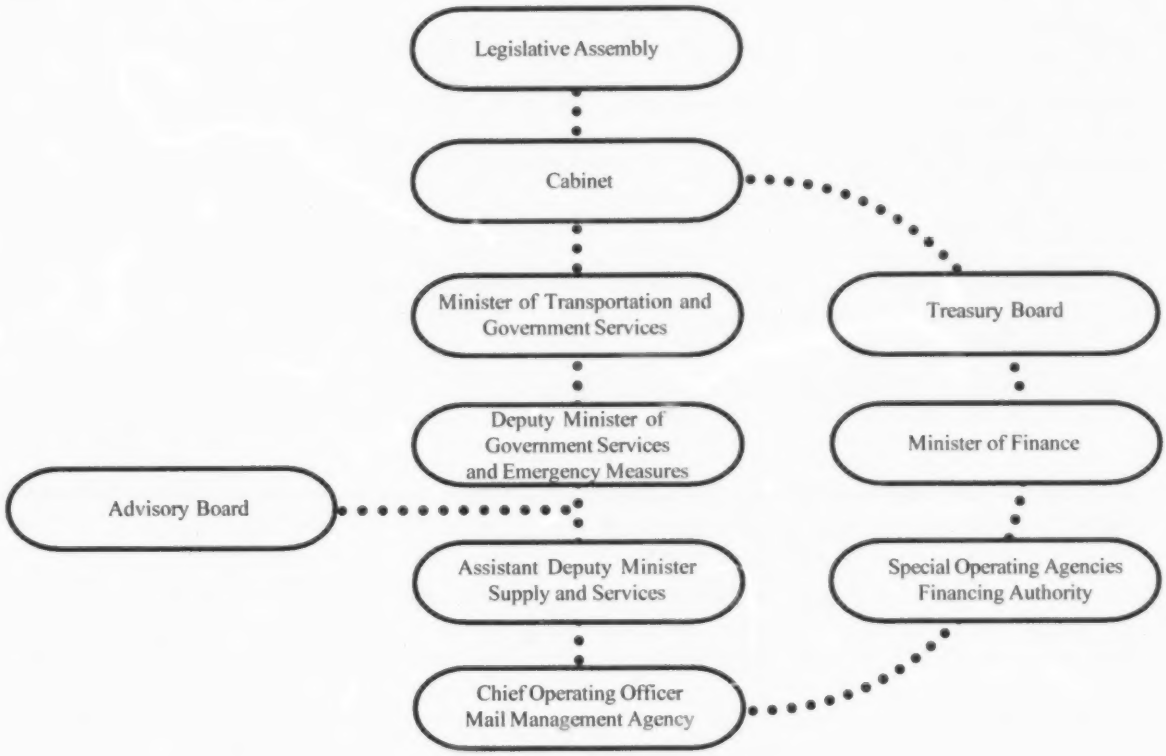
## Structure

Mail Management Agency is a Special Operating Agency within the Department of Transportation and Government Services that is accountable to the Deputy Minister for operational and financial performance.

The Agency operates outside the Consolidated Fund under the Special Operating Agencies Financing Authority, which holds title to the Agency's assets, provides financing for operations, and is responsible for its liabilities.

The accompanying chart identifies Mail Management's accountability within the established structure.




Legislative Assembly
Cabinet
Minister of Transportation and Government Services
Deputy Minister of Government Services and Emergency Measures
Advisory Board
Assistant Deputy Minister Supply and Services
Chief Operating Officer Mail Management Agency
Treasury Board
Minister of Finance
Special Operating Agencies Financing Authority

# PERFORMANCE REVIEW

The Agency, in its 2002/2003 Business Plan, identified certain quantitative and qualitative critical success factors that serve as targets that reflect the Agency's progress to becoming a successful operating entity. The following are the targets and their results for the year ending March 31, 2003.

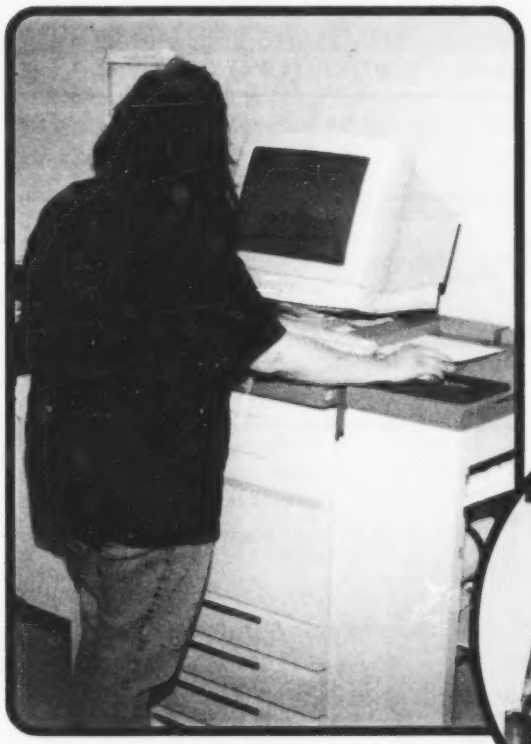
## *Product Pricing Methodology*

The Agency continued a process begun in the prior fiscal year establishing a pricing model that better reflected the cost associated with each activity. Rate increases to products and services that were not making a fair contribution were adjusted.

## *Organizational Development*

A review of existing standards was performed resulting in the creation of reports that accurately reflect performance in the Processing and Finishing lines of business. Reports are being distributed to employees on a monthly basis providing them with essential feedback which assists the employees, and their direct reports to assess their performance. The standards will be an asset when used in future performance evaluations.

The annual training schedule was adhered to including providing support to an employee that is participating in the Aboriginal Management Training Program. As well, ongoing assistance was provided for an employee who is very close to completing their Certified Accountant degree. Cross training of production staff occurred throughout the year.



## *Capital Plan*

Through out the year several leases expired and equipment that was required was replaced. In particular, the digital printers were replaced in the third quarter with equipment that increase output yet, incurs lower cost to the Agency. As well, in the second quarter, a tabletop inserter was replaced providing higher throughput and greater functionality.

# PERFORMANCE REVIEW

## *To Meet or Exceed Key Performance Indicators*

### Volumes (000's)

| | Actual 2001/02 | Actual 2002/03 | Projected 2002/03 | Variance to Actual | Variance to Actual % | Variance to Projected | Variance to Projected % |
|---|---|---|---|---|---|---|---|
| Processing | 10,284.7 | 10,241.5 | 9,591.0 | (43.2) | (0.4%) | 650.5 | 6.8% |
| Finishing | 19,257.1 | 17,275.7 | 20,464.0 | (1,981.4) | (10.3%) | (3,188.3) | (15.6%) |
| Interdepartment | 2,824.4 | 2,551.9 | 2,753.0 | (272.5) | (9.6%) | (201.1) | (7.3%) |
| Printing | 600.1 | 1,375.6 | 790.0 | 775.5 | 129.2% | 585.6 | 74.1% |
| **Total** | **32,966.3** | **31,444.7** | **33,598.0** | **(1,521.6)** | **(4.6%)** | **(2,153.3)** | **(6.4%)** |



### Paid Full Time Equivalents (FTEs)

| | Actual 2001/02 | Actual 2002/03 | Projected 2002/03 | Variance to Actual | Variance to Actual % | Variance to Projected | Variance to Projected % |
|---|---|---|---|---|---|---|---|
| Processing | 6.49 | 5.30 | 5.72 | (1.19) | (18.4%) | (0.4) | (7.4%) |
| Finishing | 7.44 | 6.06 | 7.13 | (1.38) | (18.6%) | (1.1) | (15.0%) |
| Interdepartment | 7.39 | 6.83 | 6.49 | (0.56) | (7.6%) | 0.3 | 5.2% |
| Printing | 0.16 | 0.18 | 0.20 | 0.02 | 14.3% | (0.0) | (8.6%) |
| Admin | 5.57 | 5.71 | 5.00 | 0.14 | 2.5% | 0.7 | 14.2% |
| **Total** | **27.05** | **24.08** | **24.54** | **(2.97)** | **(11.0%)** | **(0.5)** | **(1.9%)** |

### Productivity per Working FTE Hour

| | Actual 2001/02 | Actual 2002/03 | Projected 2002/03 | Variance to Actual | Variance to Actual % | Variance to Projected | Variance to Projected % |
|---|---|---|---|---|---|---|---|
| Processing | 1,036 | 1,196 | 921 | 160 | 15.4% | 274.4 | 29.8% |
| Finishing | 1,692 | 1,765 | 1,577 | 73 | 4.3% | 187.3 | 11.9% |
| Interdepartment | 250 | 231 | 233 | (19) | (7.5%) | (1.9) | (0.8%) |
| Printing | 2,458 | 4,654 | 2,171 | 2,196 | 89.3% | 2,483.1 | 114.4% |
| **Total** | **5,436** | **7,845** | **4,902** | **2,409** | **44.3%** | **2,942.9** | **60.0%** |

These targets measure three mutually exclusive items; total productivity volume, total paid hours, and productivity per working hour. The difference between the latter categories is that paid hours include vacations, sick leave, and other leaves, whereas working hours specifically reflects hours handling product.

Processing volumes were down .4% over the prior year and 6.8 % greater than projected. A large quadrennial distribution was processed in 2001/02 resulting in lower volumes in 2002/03. Productivity is up 15.4% which is accounted for by diverting volumes from the main processing facility to the Winnipeg satellite offices.

The decline in finishing volumes is a direct result of a client changing the distribution method of a form. The Agency burst well over a million of these forms in past years. At the beginning of the year, the client, converted the distribution

## PERFORMANCE REVIEW

method to an electronic format. As well, 2001/02 is the peak of the cycle for the quadrennial mailing. Volumes in the peak year are four times higher than a normal year. Susequently Mail Processing and Finishing volumes were higher in 2001/02.

For the third year in a row , Interdepartment Mail volumes have dropped. The reduction in volume over the past three years is 17.6%. Technology is beginning to play a greater role in the manner in which Provincial Employees communicate. Of note is the shift in mix of this product line. The Agency has recognized a volume shift away from the outgoing, higher revenue yielding, IDM label activity and an increase with the incoming, lower revenue yielding, Federal mail/courier traffic.

*e*MM Printing volumes increased by 129% due in part to completing the integration of a large clients print volumes. By Septemer of 2002 the rollout of the new client application was complete and all printing volumes were being performed by Mail Management. Promotion of the Printing service has contributed to increasing the amount of one-time and annual jobs that are now being performed.

Paid full time equivalents were reduced by approximately 3 FTEs while at the same time funding the particiption of an employee in the Aboriginal Management Training program. The Agency was able to obtain these results by closely monitoring volumes and adjusting staff levels to provide exceptional service with a minimum number of staff.

Increases in productivity per working full time equivalents reflects operations increased efforts to priortize and manage workflows.

## FINANCIAL HIGHLIGHTS

**Highlights**

| | 2002/03 (000's) | 2001/02 (000's) |
|---|---|---|
| Total Revenue | 6,574 | 6,160 |
| Postage Expense | 5,045 | 4,775 |
| Salaries & Benefits | 948 | 970 |
| Operating Expenses | 598 | 605 |
| Total Income | (17) | (190) |
| Interest | 18 | 8 |
| Net Income | (35) | (198) |

**Ratios**

| | 2002/03 | 2001/02 |
|---|---|---|
| Return on Total Revenue | (0.53)% | (3.21)% |
| Return on Assets | (0.03)% | (18.64)% |
| Return on Equity | (11.44)% | (58.06)% |
| Debt to Equity | 3.26:1 | 2.11:1 |
| Current Ratio | 1.09:1 | 1.23:1 |

# PERFORMANCE REVIEW

*To Meet or Exceed Key Performance Indicators*

**Volumes (000's)**

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## FINANCIAL HIGHLIGHTS

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# MANAGEMENT DISCUSSION AND ANALYSIS

## *Overview*

The Agency closed the year with a loss of $35.0 on $6,574.0 in gross revenue. This is a substantial improvement over 2001/02. Rate adjustments and increased productivity per hour are the primary reason for the improvement. Volume decreases in the Finishing and Interdepartment Mail lines of business hindered the Agency's attempt to break even.

## *Significant Events in 2002/2003*

New rates were in place for the full fiscal year and helped to improve the bottom line. The conversion of a large volume bursting job to electronic submission versus paper reduced Finishing revenues. Adjusting staffing levels to meet the work flow resulted in a reduction in salaries. As well, the Agency's Chief Operating Officer left the Agency in the beginning of the third quarter with the position being filled on a rotational basis by the Marketing/Systems manager and the Operations manager.

Improvements to the management information system have allowed the Agency to perform trend analysis on each line of business. The trend analysis has allowed Operations to utilze employees more effectively and to schedule vacations around workflows.

Marketing efforts focused on promoting the eMM digital print function and participating in a multi Agency seminar. The seminar was a success and garnered interest and business for the Agency. Efforts at promoting the digital print line of business contributed to a 129% increase in volumes and netted a near break even status for the first time. The sales cycle in variable data digital printing has proven to be a long one. A contract was signed with another client and the Agency expects volumes to increase by 30% in the second quarter of 2004.

## *Net Income*

Mail Management posted a net loss for the third time in its seven year history. The loss of $35.0 is primarily attributed to the revenue shortfall in the IDM product line. Other factors, however, have played a role including the move of paper communication to electronic formats, and higher amortization costs resulting from equipment purchases.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Revenue From Operations*

### Mail Processing

Mail processing revenue increased by 6% to $5,611.0 over the prior year. The additional revenue, in part, is due to Canada Post increases but is mainly due to substantial increases applied by Mail Management. The increases were required to bring this line of business to a break even point.

### Mail Finishing

Finishing revenue dropped by 10.3% to $352.0. Midway through 2000/01 a client changed the distribution of a form from paper to electronic which reduced volumes in 2002/03 by 1,200.0 transactions. In 2001/02 a quadrennial mailing occurred increasing the number of transactions by over 500.0. The year following the quadrennial mailing, 2002/03, one quarter of those volumes were received.



### Interdepartment Mail

Revenues compared to the prior year were up 15.4 % while volumes declined 9.6%. A variety of factors affected the outcome in this product line. Rate increases were implemented at the beginning of 2002/03 resulting in a $60.0 increase in revenue. Volumes decreases are due to more accurate counting procedures and the wide spread use of electronic mail.

### Printing

Printing volumes improved by 129% over the prior year, 55% higher than projected. Several large unexpected one-time projects were performed and the integration of a major clients printing program was completed in the second quarter. Once the integration was completed and jobs were received on a regular basis, it was apparent that the volumes would be much higher than projected.

### Contract Management

The revenues from this service continue to grow and strengthen the Agency's bottom line. Over 900 clients access this service and, each year, the amount of clients signing up is in excess of 5%. Revenue increased by 26.3% in 2002/03 reaching an all time high of $61.0.

# MANAGEMENT DISCUSSION AND ANALYSIS

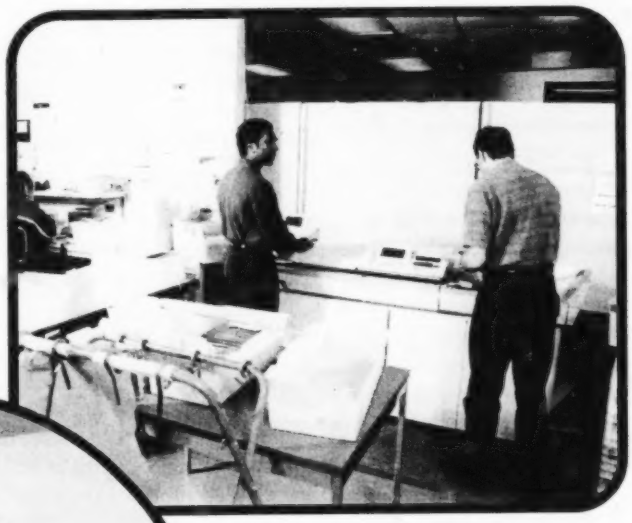
## *Operating Expenses*

The largest component of the Agency's operating cost remains postage at $5,045. Postage expenditures increased $271.0 or 5.7% over the prior year. The increase in postage was primarily due to various product rate increases from Canada Post.

Labour represented the second largest expense for the Agency. A 2.3% decrease occurred in 2002/2003 bringing salaries down to $806.0 before benefits. This reduction in salary expense was due in part to increased vigilance of Operations to adjust the staff level based on production requirements. As well, the filling of the Agency's Chief Operating Officer position on an acting basis reduced salary expenditures. The Agency continued to support an employees participation in the Aboriginal Management Training Program.



Several pieces of equipment that were at end of life were replaced and in one instance the lease on the replacement equipment was less than the previous lease. The net result was a reduction in the amount spent on leased equipment by $10.0.



# RESPONSIBILITY OF FINANCIAL REPORTING

MARCH 31, 2002

**Mail Management Agency**
**An Agency of the**
**Special Operating Agencies Financing Authority**
**Province of Manitoba**
**Responsibility of Financial Reporting**

The Agency's management is responsible for the financial statements and other financial information in the annual report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and the results of operations in accordance with generally accepted accounting principles. The Exchange Group - Chartered Accountants, independent external auditors, has audited the financial statements.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that the transactions are authorized, properly recorded and reported and that the assets are safeguarded.

An Advisory Board is available to meet, as required, with management to review accounting practices, financial reporting and to discuss audit results. During the year, management met once with the Advisory Board. The auditors have free and full access to this Board, to discuss the results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

Greg Bowers

Greg Bowers
A/Chief Operating Officer

June 30, 2003

# MAIL MANAGEMENT AGENCY

**Financial Statements**
**(in Thousands)**

**Year Ended March 31, 2003**

## AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Mail Management Agency , an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2003 and the statements of loss and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

THE EXCHANGE

chartered accountants

Winnipeg, Manitoba
May 22, 2003, except as to note 14, which is as of September 10, 2003

## MAIL MANAGEMENT AGENCY

**Balance Sheet**
**(In Thousands)**

**March 31, 2003**

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Accounts receivable | $ 763 | $ 617 |
| Prepaid expenses | 121 | 139 |
| | 884 | 756 |
| DUE FROM PROVINCE *(Note 6)* | 124 | 125 |
| FIXED ASSETS *(Note 2, 3)* | 283 | 157 |
| OTHER ASSETS *(Note 2, 4)* | 12 | 24 |
| | $ 1,303 | $ 1,062 |
| **LIABILITIES** | | |
| CURRENT | | |
| Working capital payable *(Note 5)* | $ 631 | $ 270 |
| Accounts payable | 137 | 340 |
| Current portion of obligations under capital leases *(Note 9)* | 40 | 6 |
| | 808 | 616 |
| SEVERANCE LIABILITY *(Note 7)* | 76 | 84 |
| OBLIGATION UNDER CAPITAL LEASES *(Note 9)* | 113 | 21 |
| | 997 | 721 |
| **EQUITY** | | |
| Contributed surplus *(Note 11)* | 51 | 51 |
| Retained earnings | 255 | 290 |
| | 306 | 341 |
| | $ 1,303 | $ 1,062 |

## MAIL MANAGEMENT AGENCY

### Statement of Loss and Retained Earnings
### (In Thousands)

### Year Ended March 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **REVENUE** | | |
| Mail processing | $ 5,611 | $ 5,295 |
| Mail finishing | 352 | 392 |
| Inter department mail | 450 | 390 |
| Printing | 100 | 41 |
| Contract administration | 61 | 42 |
| | 6,574 | 6,160 |
| **EXPENSES** | | |
| Amortization | 79 | 61 |
| Communications | 10 | 11 |
| Courier | 147 | 146 |
| Employee benefits | 142 | 146 |
| Equipment rental and maintenance | 72 | 64 |
| Interest *(Note 13)* | 18 | 8 |
| Leases | 65 | 80 |
| Network | 26 | 31 |
| Miscellaneous operating | 24 | 32 |
| Office | 28 | 25 |
| Occupancy | 115 | 121 |
| Postage | 5,045 | 4,775 |
| Professional fees | 7 | 13 |
| Salaries | 806 | 824 |
| Sub-contracts | 25 | 21 |
| | 6,609 | 6,358 |
| **NET LOSS** | (35) | (198) |
| RETAINED EARNINGS - BEGINNING OF YEAR | 290 | 488 |
| **RETAINED EARNINGS - END OF YEAR** | $ 255 | $ 290 |

## MAIL MANAGEMENT AGENCY

### Statement of Cash Flows
### (In Thousands)

### Year Ended March 31, 2003

| | 2003 | 2002 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss | $ (35) | $ (198) |
| Item not affecting cash: | | |
| Amortization | 79 | 61 |
| | 44 | (137) |
| Changes in non-cash working capital: | | |
| Accounts receivable | (146) | 150 |
| Due from Province | 1 | 1 |
| Accounts payable | (203) | (81) |
| Deferred income | - | (2) |
| Prepaid expenses | 18 | (96) |
| Severance liability | (8) | 9 |
| | (338) | (19) |
| Cash flow used by operating activities | (294) | (156) |
| **INVESTING ACTIVITIES** | | |
| Additions to fixed assets | (193) | (85) |
| Cash flow used by investing activities | (193) | (85) |
| **FINANCING ACTIVITIES** | | |
| Obligation under capital leases | 126 | 1 |
| Cash flow from financing activities | 126 | 1 |
| **DECREASE IN CASH FLOW** | (361) | (240) |
| DEFICIENCY - Beginning of year | (270) | (30) |
| **DEFICIENCY - End of year** | $ (631) | $ (270) |

## MAIL MANAGEMENT AGENCY

**Notes to Financial Statements**
**(In Thousands)**

**Year Ended March 31, 2003**

1. DESCRIPTION OF OPERATIONS

In 1956, Mail Management (Postal Service) was created as a branch of the Manitoba Provincial Government to provide centralized postal management.

Effective April 1, 1996, the Postal Service was renamed Mail Management Agency (MMA) and designated as a Special Operating Agency (SOA) pursuant to The Special Operating Agencies Financing Authority Act, Cap. s185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

MMA is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from MMA operations. It finances MMA through repayable loans and working capital advances. The financial framework enables the Agency to operate in a business-like manner according to the public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Government Services assigns responsibility to MMA to manage and account for MMA related assets and operations on behalf of the Financing Authority.

MMA continues to be part of Manitoba Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

MMA remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Financing Authority is economically dependent on the Province of Manitoba. Currently, the Financing Authority derives most of its revenue and all of its capital financing requirements from the Province.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Fixed Assets

Fixed assets are recorded at cost and are amortized annually at the following rates and bases:

| | | |
|---|---|---|
| Production equipment | 20% | declining balance method |
| Computer equipment | 20% | straight-line method |
| Capital lease | | lease term straight-line method |

Other Assets

Other assets are recorded at cost and are amortized at the following rate on a straight-line basis:

Computer conversion - over 5 years

3. FIXED ASSETS

| | Cost | Accumulated amortization | 2003 Net book value | 2002 Net book value |
|---|---|---|---|---|
| Production equipment | $ 316 | $ 195 | $ **121** | $ 153 |
| Computer equipment | 7 | 4 | **3** | 4 |
| Capital lease | 189 | 30 | **159** | - |
| | $ 512 | $ 229 | $ **283** | $ 157 |



4. OTHER ASSETS

| | Cost | Accumulated Depreciation | 2003 Net Book Value | 2002 Net Book Value |
|---|---|---|---|---|
| Computer Conversion | $ 60 | $ 48 | $ **12** | $ 24 |

5. WORKING CAPITAL PAYABLE

MMA has an authorized line of working capital advances of $1,500 of which $869 is available as at March 31, 2003.

6. DUE FROM PROVINCE

The receivable from the Province of Manitoba is for vacation entitlements earned by the employees of Mail Management Agency prior to their designation as SOAs. It also includes severance pay benefits earned by SOA employees to March 31, 1998. The balance is comprised of:

| | 2003 | 2002 |
|---|---|---|
| Vacation entitlements | $ **60** | $ 60 |
| Severance pay benefits | **64** | 64 |
| Other | - | 1 |
| | $ **124** | $ 125 |

The timing of the collection of these receivables will vary for each SOA. The receivable, or portion thereof, for an individual SOA will be collected in the event that there is a cash shortfall. However, this is only likely to happen on the dissolution of an SOA.

7. SEVERANCE LIABILITY

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The estimate of the liability was based on the method of calculation set by the Province.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance at April 1, 1998 of $89 was completely offset by a receivable from the Province.

An actuarial report of the Agency's severance as at March 31, 2000 was restated to $75 as a result of the actuarial valuation. There was no effect on the severance benefit expense for the year ended March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $76 as at March 31, 2003 (2002 - $84).

8. THE PUBLIC SECTOR COMPENSATION DISCLOSURE ACT

It is a requirement of The Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of $50:

| Name | Position | 2003 | 2002 |
|---|---|---|---|
| Don Katz | Chief Operating Officer | $ - | $ 61 |
| Greg Bowers | Marketing/Systems | 54 | 51 |
| | | $ 54 | $ 112 |

9. OBLIGATION UNDER CAPITAL LEASES

| | 2003 | 2002 |
|---|---|---|
| Pitney Bowes capital lease bearing interest at 2.37 % per annum, repayable in quarterly instalments of $2 blended principal and interest. The capital lease ends on January 31, 2006 and is secured by high speed mailing machine. | $ 21 | $ 27 |
| Xerox Canada capital lease repayable by a fixed annual contract fee of $24. The capital lease ends on January 30, 2008. | 95 | - |
| DeLage Landen capital lease repayable in quarterly payments of $2. The capital lease ends on December 31, 2006. | 37 | - |
| | 153 | 27 |
| Amounts payable within one year | (40) | (6) |
| | $ 113 | $ 21 |

Principal repayment terms are approximately:

| | |
|---|---|
| 2004 | $ 40 |
| 2005 | 40 |
| 2006 | 43 |
| 2007 | 30 |
| | $ 153 |

10. COMMITMENT

The Agency has not entered into lease agreements with the Province of Manitoba for the five locations that it operates (200 Vaughan Street, Winnipeg; 405 Broadway, Winnipeg; 450 Broadway, Winnipeg; 340 - 9th Street, Brandon; and 25 Tupper Street, Portage la Prairie). Occupancy charges for the year ended March 31, 2003 were $115, whereas charges for the year ended March 31, 2002 were $120.

11. CONTRIBUTED EQUITY

SOAFA and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of fixed assets valued at $102 required for continuing operations of the Mail Management Agency as at March 31, 1996. The Agency is responsible to repay Special Operating Agencies Financing Authority the debt portion in the amount of $51 (being one-half of the value of the assets) and to record the balance of $51(being one-half of the value of the assets) as Manitoba's equity in the Financing Authority as related to the Agency's operations. The debt portion has been repaid.

**MAIL MANAGEMENT AGENCY**

**Notes to Financial Statements**
**(In Thousands)**

**Year Ended March 31, 2003**

12. FINANCIAL INSTRUMENTS

The company's financial instruments consist of cash, accounts receivable, investment, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

13. INTEREST PAID

Interest in the amount of $18 was paid during the year (2001 - $8).

14. COMPARATIVE DESCRIPTION

The comparative description of the long term debt have been renamed to conform to the current year's presentation as obligation under capital leases.